

## 1999 Country Reports on Economic Policy and Trade Practices

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### JORDAN

#### Key Economic Indicators 1/

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999
<i>Income, Production and Employment:</i>			
Nominal GDP 2/	6,974	7,384	7,612
Real GDP Growth (pct) 3/	1.3	2.2	2.0
GDP by Sector:			
Agriculture	208	186	N/A
Manufacturing	835	860	N/A
Services	1,285	1,354	N/A
Government	1,256	1,331	N/A
Per Capita Nominal GDP (US\$) 4/	1,516	1,552	1,565
Labor Force (000s) 5/	1,024	1,250	N/A
Unemployment Rate (pct) 5/	13.2	14.9	N/A
<i>Money and Prices (annual percentage growth):</i>			
Money Supply Growth (M2)	7.8	7.6	6.0
Consumer Price Inflation 6/	3.0	3.1	2.0
Exchange Rate			
Official (JD/US\$ annual average)	0.709	0.709	0.709
<i>Balance of Payments and Trade:</i>			
Total Exports FOB 7/	1,835	1,802	1,835
Exports to U.S. 8/	26.0	17.1	30.0
Total Imports CIF 7/	4,100	3,827	3,980
Imports from U.S. 8/	402	353.1	270
Trade Balance 7/	-2,265	-2,025	-2,145
Balance with U.S. 8/	-376	-336	-228
Current Account Deficit/GDP (pct) 9/	-0.42	-0.18	0.7
External Debt Outstanding 10/	6,459	7,054	7,259
Debt Service Payments/GDP (pct)	12.3	10.5	N/A
(Commitment Basis)			
Debt Service Payments/GDP (pct)	7.5	6.9	N/A
(Cash Basis)			

Fiscal Deficit/GDP (excluding grants)	-7.7	-10.7	-7.0
Fiscal Deficit/GDP (including grants)	-3.1	-6.8	-3.3
Gold and Foreign Currency Reserves 11/ 12/	2,400	1,954	2,726
Official Foreign Currency Reserves 12/	1,693	1,169	1,916
Aid from U.S. 13/ 14/	180	207	262
Aid from All Other Sources 14/	259	236	N/A

1/ Sources: Central Bank of Jordan's (CBJ) Monthly Bulletin, October 1999; IMF First Review of EFF Arrangements, September 21, 1999; Ministry of Finance's (MOF) Government Finance Bulletin, July 1999; and Ministry of Labor's Annual Report 1998. FY 1999 estimates are based on CBJ 1999 projections, in the 1998 Annual Report; MOF projections, and embassy projections for exports and imports to/from U.S. are based on 8 months of U.S. Commerce Department statistics. 1998 figures are preliminary as per their sources.

2/ FY 1999, based on Nominal GDP growth projection of 3.1 percent (IMF).

3/ Percentage changes calculated in local currency for real GDP at constant market prices. Note that data for 1996-1999 has been revised.

4/ For 1999, population estimate of 4,918,000 and projected nominal GDP growth rate of 3.1 percent.

5/ Labor Force: Ministry of Labor Annual Report 1998; Unemployment: FY 1998, official result of the first round of the Employment and Unemployment Survey conducted by the Department of Statistics (unofficial estimates are almost twice as high).

6/ Percentage change in the Cost of Living Index.

7/ Merchandise trade; exports and imports on customs basis.

8/ Trade with U.S. based on Department of Commerce statistics. 1999 projections estimated from 8 month trade figures.

9/ Including grants. Figures for 1997 and 1998 are in surplus.

10/ FY 1999 estimated from IMF debt growth projections.

11/ Represents net foreign exchange reserves plus gold.

12/ FY 1999 figures as at end of August.

13/ FY 1996 includes \$100 million of military equipment transfers; figures exclude credit guarantees and GSM grain soft loans, but include soft loan PL 480 (for agricultural commodities). Includes economic and military assistance. FY 1999 includes Section 416(b) donation of U.S. agricultural commodities.

14/ Foreign grants as reported in the General Government Budget (CBJ reports), including the Iraqi grant. Total FY 1999 foreign grants going to the budget (including US ones) are expected to total US\$ 290 million.

## *1. General Policy Framework*

With a per-capita gross domestic product (GDP) of about \$1,550, and a population of 4.9 million, Jordan has one of the smallest and poorest economies in the region. Since 1996, Jordan has experienced slow economic growth, declining per capita income, and high levels of unemployment. Real gross domestic product (GDP) is expected to grow in 1999 at no more than two per cent, which is below the rate of population growth. Drought caused agricultural output to decline in 1999.

The government is committed to economic reform, especially in the area of privatization and in improving the investment climate. Jordan is in the process of acceding to the world trade organization (WTO), and is likely to gain membership during the first quarter of 2000. As a result, it is in the process of passing laws modernizing customs and phytosanitary regulations, intellectual property protection, the tax regime, laws regulating services, and many other aspects of its economy. Recently, after years of inaction, the government privatized the Aqaba Railway and partially privatized the state-owned cement company. Significant progress has been made towards privatizing the Jordan Telecommunications Company and Royal Jordanian, the national airline.

The government offers significant incentives to foreign businesses wishing to establish operations in Jordan. The U.S. and Jordan have signed a Bilateral Investment Treaty, which protects investors and establishes procedures for resolving investment disputes, and a Trade and Investment Framework Agreement, which aims to broaden economic ties between the two countries.

The United States offers unique trade benefits to Jordan through the designation of five "Qualifying Industrial Zones" (QIZs). Goods manufactured in QIZs, which require input from both Jordan and Israel, are allowed duty-free entry into the U.S. Thousands of jobs have been created in the last year due to this initiative. Other potential QIZs in Aqaba and Mafraq, are in the planning stage.

## *2. Exchange Rate Policy*

The Central Bank of Jordan (CBJ) oversees foreign currency transactions in Jordan and sets the exchange rate. The dinar-dollar fixed rate was instituted in 1995 and remains at 0.708 (buy) and 0.710 (sell) dinar to the dollar (approximately \$1.41 to the dinar). The dinar fluctuates against other currencies according to market forces.

All restrictions pertaining to the inflow and outflow of foreign currency (including gold) were rescinded in 1997. The Jordanian dinar (JD) was made fully convertible for all commercial and capital related transactions. Foreign currency is obtainable from licensed banks at the legal market-clearing rate, which is the CBJ's official rate. Although there has been deterioration of the real effective exchange rate since the early 1990s, it is anticipated that the JD will remain pegged

to the dollar at an exchange rate of approximately \$1.41 to the JD, in light of the Central Bank's commitment to maintaining exchange rate stability.

Moneychangers operate under Central Bank supervision and are free to set their own currency exchange rates. Moneychangers, unlike banks, do not pay CBJ commission fees for every exchange transaction, which gives them a competitive edge over banks.

Banks do not require prior CBJ approval for the incoming and outgoing transfer of funds from either resident or non-resident accounts (including investment-related transfers). Banks, however, ultimately report all foreign currency transactions to the CBJ. Banks are permitted to open non-resident accounts in JD and/or foreign currency.

The CBJ requires banks to submit non- resident supportive documents on behalf of their foreign clients every three years. Otherwise such accounts will be converted to resident foreign currency accounts. Non-resident foreign currency accounts are exempted from all transfer-related commission fees charged by the central bank.

Banks may buy or sell an unlimited amount of foreign currency on a forward basis. Banks are permitted to engage in reverse operations involving the selling of foreign currency in exchange for JD on a forward basis for the purpose of covering the value of imports. There are no restrictions as to the amount resident account holders may maintain in foreign currency deposits, and there are no limits on the amount of funds residents are permitted to transfer abroad.

### *3. Structural Policies*

Although enjoying U.S. Generalized System of Preferences (GSP) and Normal Trade Relations benefits, Jordan does not provide reciprocal treatment of goods imported from the United States. Most imports into Jordan are subject to tariffs and duties, while industrial raw materials and capital equipment imported by licensed industrial projects may be exempted. The ceiling on all duties is 35 percent. Most additional customs taxes, fees and duties on regular imports have been abolished. However, luxury goods and automobiles are still assessed additional sales taxes, fees, and duties.

The Kingdom's Income Tax Law imposes a 35 percent maximum marginal rate. Taxes on individual incomes vary between 5 percent (for annual incomes less than \$3,000) and 30 percent (for annual incomes exceeding \$22,500). Corporate taxes are set at 35 percent for banks and financial institutions and 25 percent for companies engaged in brokerage and agency activities. Re-invested profits and profits earned on exports are exempt from income tax.

Current law imposes an across-the-board 13 percent sales tax. However, the sales tax is higher on certain items, such as cigarettes, alcohol and automobiles. The law exempts exports from the sales tax and empowers the Cabinet to impose additional sales taxes to compensate for revenue losses from reduced customs duties. After reducing duties on all imports to no more

than 35 percent in mid-1999, the Council of Ministers lowered the special sales tax on imported automobiles. The result is that automobiles, although still expensive, are more affordable for the average Jordanian. Almost all types of professional, business and legal services are also subject to the 13 percent sales tax. The government is working to revise the sales tax and expects to introduce a VAT-like sales tax in mid-2000.

#### *4. Debt Management Policies*

Jordan's outstanding external official debt is approximately \$7 billion. Jordan rescheduled \$400 million in debt to Paris Club creditors in 1997, and a further \$800 million in 1999, easing repayment pressure. The ratio of debt service to exports of goods and non-factor services has been decreasing since 1993, dropping from 35.9 percent in 1993 to 21.4 percent in 1998, according to the central bank. More than 25 percent of Jordan's external debt is to multilateral institutions, while its largest bilateral creditors are Japan, France and the United Kingdom.

#### *5. Aid*

In fiscal year 1999, USAID's economic assistance program to Jordan totaled \$200 million. In addition, the U.S. provided \$45 million in Foreign Military Financing (FMF), and \$1.6 million in International Military Education and Training Program (IMET) funds. Jordan also utilized \$15 million in GSM 103 loan guarantees for grain purchases, and received 300,000 tons of wheat, worth approximately \$40 million, donated under the Section 416(b) program. USAID's economic assistance program for FY 2000 is expected to be approximately \$200 million.

#### *6. Significant Barriers to U.S. Exports*

**Import Licenses:** Import licenses are generally not required. Approximately 50 special items do require prior clearance. The license regime will be modified in accordance with WTO requirements in early 2000.

**Services Barriers:** At present, market-entry barriers affect almost all service industries. Foreign suppliers of services do not receive Normal Trade Relations or national treatment. However, when Jordan accedes to the WTO in early 2000, many of these barriers will be eased or lifted completely.

**Standards, Testing, Labeling, and Certification:** Except for pharmaceuticals, which are handled by the Ministry of Health, the Jordanian Standards and Measures Department is responsible for most issues related to standards, measures, technical specifications and ISO certification. Imported products must comply with labeling and marking requirements issued by the Standards and Measures Department and relevant government ministries. Different

regulations apply to imported foodstuffs, medicines, chemicals and other consumer products. Jordanian importers are responsible for informing foreign suppliers of any applicable labeling and marking requirements.

**Investment Barriers:** The United States and Jordan signed a Bilateral Investment Treaty in 1997. The current Investment Promotion Law is designed to promote both local and foreign investment and to encourage the formation of joint ventures and multinational enterprises in Jordan. Most important to U.S. business, the law provides equal treatment for foreign and Jordanian investors. Restrictions on foreign investment remain in four sectors: media, construction, trade and commercial services, and mining.

**Government Procurement Practices:** With few exceptions, the General Supplies Department of the Ministry of Finance makes government purchases. Foreign bidders are permitted to compete directly with local counterparts in international tenders financed by the World Bank. However, local tenders are not directly open to foreign suppliers. By law, foreign companies must submit bids through agents. While Jordan's procurement law does not allow non-competitive bidding, it does permit a government agency to pursue a selective tendering process. The law gives the tender-issuing department, as well as review committees at the Central Tenders and General Supplies Departments, the right to accept or reject any bid while withholding information on its decisions.

**Customs Procedures:** Despite donor-supported reform efforts, cumbersome customs procedures continue to undermine Jordan's business and investment climate. Overlapping areas of authority and difficult clearance procedures remain in place. Actual appraisal and tariff assessment practices are frequently arbitrary and may even differ from written regulations. Customs officers often make discretionary decisions about tariff and tax applications when regulations and instructions conflict or lack specificity. Delays in clearing customs are common.

## *7. Export Subsidies Policies*

The Central Bank runs a low interest financing facility to support eligible exports, including all agricultural and manufactured exports with domestic value-added of not less than 25 percent. The Jordan Loan Guarantee Corporation offers soft loans to small scale, export-oriented projects in industry, handicrafts and agriculture. The Export and Finance Bank, a public shareholding corporation, provides commercial financing and loan guarantees to Jordanian exporters.

## *8. Protection of U.S. Intellectual Property*

After it accedes to the World Trade Organization, Jordan will be obligated to meet the requirements of the Trade Related Aspects of Intellectual Property (TRIPS) agreement. Jordan is a member of the World Intellectual Property Organization (WIPO), and is a signatory to the Paris Convention for the Protection of Industrial Property and the Berne Convention.

In April 1999, the U.S. Trade Representative retained Jordan on the “Special 301” Watch List for inadequate protection of intellectual property, but by the end of 1999, Jordan was taken off this list. Jordan has passed the appropriate intellectual property laws and is in compliance on this issue.

In the area of copyrights, amendments to Jordan’s Copyright Law were passed in September 1999 by parliament and provide an improved framework for protection of foreign copyrights. This law appears to comply with TRIPS requirements, but fully effective enforcement mechanisms are not yet in place. Amendments to the existing trademark law were approved by parliament in late 1999.

A new patent law went into effect in December 1999. This law could curtail unauthorized copying of pharmaceutical products, which results in tens of millions of dollars in losses to U.S. and European pharmaceutical firms. The law appears to fall short of TRIPS data protection requirements, but this shortcoming will be addressed in additional legislation to be adopted before accession to the WTO.

Software piracy is common in Jordan. However, the new copyright law, in conjunction with one high-profile raid on several retailers of pirate software, has begun to drive the pirate software market underground. In 1998, Jordan issued a decree requiring government ministries to use licensed software.

## *9. Worker Rights*

*a. The Right of Association:* Workers in the private sector and some state-owned companies have the right to establish and join unions. More than 30 percent of the Jordanian work force is unionized. Unions represent their membership in dealing with issues such as wages, working conditions and worker layoffs. Seventeen unions make up the General Federation of Jordanian Trade Unions (GFJTU). The GFJTU actively participates in the International Labor Organization.

*b. The Right to Organize and Bargain Collectively:* Unions have, and exercise, the right to bargain collectively. GFJTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards, working conditions and health and life insurance. If a union is unable to reach agreement with an employer, the dispute is referred to the Ministry of Labor for arbitration. If the ministry fails to act within two weeks, the union may strike.

*c. Prohibition of Forced or Compulsory Labor:* Compulsory labor is forbidden by the Jordanian Constitution, except in a state of emergency such as war or natural disaster.

*d. Minimum Age for Employment of Children:* Children under age 16 are not permitted to work except in the case of professional apprentices. Under an apprentice program, students may leave the standard educational track and begin part-time training (up to 6 hours a day) at age 13. In practice, enforcement of this law often does not extend to small family businesses that employ underage children.

*e. Acceptable Conditions of Work:* Jordan's workers are protected by a comprehensive labor code, enforced by Ministry of Labor inspectors. A minimum wage of 80 JD per month was decreed in October 1999. The government maintains and periodically adjusts a minimum wage schedule of various trades, based on recommendations of an advisory panel consisting of representatives of workers, employers and the government. Maximum working hours are 48 per week, with the exception of hotel, bar, restaurant and movie theater employees, who may work up to 54 hours. Jordan has a Workers Compensation Law and a social security system, which cover companies with more than five employees.

*f. Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment do not differ from those in other sectors of the Jordanian economy.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad  
on an Historical Cost Basis -- 1998**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	-1
Total Manufacturing	(1)
Food & Kindred Products	(1)
Chemicals & Allied Products	0
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	0
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	0
Wholesale Trade	0
Banking	(1)
Finance/Insurance/Real Estate	(1)
Services	0
Other Industries	0
<b>TOTAL ALL INDUSTRIES</b>	<b>32</b>

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.